

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

Date: April 28, 2016

Number: **201630018**
Release Date: 7/22/2016

Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

W= School
X= School
Y= School
Z= School

Dear :

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a nonexempt charitable trust (NECT) described in Code section 4947(a)(1). You requested approval of your scholarship program to fund the education of certain qualifying students.

Our determination

We approved your procedures for awarding scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code section 117(b)).

Description of your request

You operate a scholarship program to provide scholarships to students who are graduates of W or X for the purpose of attending Y or Z for the upcoming year.

The scholarship program is promoted through W and X's websites, through the office of the guidance counselors from W and X, and through newspaper publications.

In order to be eligible for the scholarships, applicants must:

- Plan to graduate or have graduated from W or X.
- Be admitted to and plan on attending Y or Z for the upcoming academic year.
- Have maintained a minimum Grade Point Average of 2.0 each of the four years that they have attended high school.
- Have shown a cooperative attitude towards other and have been involved in community activities.

Applicants must also complete a detailed application which is available through the W and X guidance counselor offices and online. As part of the application, individuals must provide a copy of their high school transcript, a brief essay describing their goals and how the scholarship will impact these goals and a copy of their letter of acceptance from either Y or Z. All applications must be mailed through the U.S. Post Office and postmarked by the deadline.

The total number and amount of the scholarships each year will vary based on the number of qualified applicants and your investment performance. A selection committee consisting of the W principal, the X principal/administrator, and a trust officer will select the individual scholarship recipients.

There are no specific prohibitions against relatives of members of the selection committee receiving scholarships. However, they must meet all eligibility and application requirements to be selected. The related selection committee member will be abstained from the voting/selection process. The trustee is responsible for any final discretion on awarding the scholarships to the recipients. You do not provide any scholarships to any disqualified persons as defined by Code section 4946(a).

Scholarship checks are made payable to the post- secondary institutions for payment on behalf of the scholarship recipient to ensure eligibility for the financial aid and application of funds to school expenses.

For renewal of the scholarship, recipients must provide their transcripts to show satisfactory academic progress as well as evidence of registration, acceptance, and attendance at the eligible post-secondary institutions. Recipients that do not make satisfactory academic progress will be considered ineligible for future scholarships.

You represent that you will complete the following: (1) arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded, (2) investigate diversion of funds from their intended purposes, and (3) take all reasonable and appropriate steps to recover the diverted funds, ensure other grant funds held by a grantee are used for their intended purposes, and (4) withhold further payments to grantees until you obtain grantees' assurances that future diversions will not occur and that grantees will take extraordinary precautions to prevent future diversion from occurring.

You represent that you will maintain the following: (1) all records relating to individual grants including information obtained to evaluate grantees, (2) identify whether the

grantee is a disqualified person, (3) establish the amount and purpose of each grant, and (4) establish that you undertook the supervision and investigation of grants described above.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to the provisions of Code section 117(a).
- The grant is to be used for study at an educational organization described in Code section 170(b)(1)(A)(ii).

Other conditions that apply to this determination

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Jeffrey I. Cooper
Director, Exempt Organizations
Rulings and Agreements